

CALHOUN PORT AUTHORITY

ANNUAL FINANCIAL REPORT

For the year ended June 30, 2018

TABLE OF CONTENTS

	<u>Page</u>
FINANCIAL SECTION	
Independent Auditors' Report	1
Management's Discussion and Analysis	3
<u>Basic Financial Statements</u>	
Government-wide Financial Statements	
Statement of Net Position	9
Statement of Activities	10
Fund Financial Statements	
Balance Sheet - Governmental Funds	12
Reconciliation of Total Governmental Fund Balance to Net Position of Governmental Activities	13
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	14
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	15
Statement of Net Position - Proprietary Funds	16
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds	17
Statement of Cash Flows - Proprietary Funds	18
Notes to Financial Statements	19
<u>Required Supplementary Information</u>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual - General Fund	32
Notes to Required Supplementary Information	33
<u>Other Supplementary Information</u>	
Schedule of Principal Property Taxpayers - Tax Year 2018 (Unaudited)	34
Schedule of Insurance Coverage (Unaudited)	35
Cargo Traffic Statistics (Unaudited)	37

FINANCIAL SECTION



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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
Calhoun Port Authority
Point Comfort, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Calhoun Port Authority (the "Port") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Port's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Board of Commissioners
Calhoun Port Authority

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Calhoun Port Authority as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Port's basic financial statements. The schedules on pages 34 through 38 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules on pages 34 through 38 have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Harrison, Waldrop & Whetzel, LLP

October 24, 2018

CALHOUN PORT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2018

As management of the Calhoun Port Authority, Calhoun County, Texas (the "Port"), we offer readers of the Port's financial statements this narrative overview and analysis of the financial activities of the Port for the fiscal year ended June 30, 2018. The government-wide statements include not only the Port, but also one legally separate blended component unit, the Calhoun County Navigation Industrial Development Authority (CCNIDA). This discussion and analysis is designed to assist the reader in concentrating on the significant financial issues and activities and to identify any significant changes in financial position. All amounts, unless otherwise indicated, are expressed in whole dollars.

FINANCIAL HIGHLIGHTS

- The assets of the Port exceeded its liabilities and deferred inflow of resources at the close of the fiscal year ended June 30, 2018, by \$54,484,021.
- At June 30, 2018, the Port's governmental funds reported combined ending fund balances of \$53,323,465, which is an increase of \$2,823,809 in comparison with the prior year.
- At June 30, 2018, the unassigned fund balance for General Fund was \$20,922,575 or 270.6% of actual expenditures of \$7,731,741. Budgeted expenditures totaled \$7,904,178, and the difference is principally due to higher professional fees related to the development of the South Peninsula Project.
- The Port's total net debt remained unchanged.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Port's basic financial statements. The Port's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements.

Organization and Flow of Financial Section Information

Independent Auditors' Report

Provides the opinion of the Independent Auditors on the fair presentation of the basic financial statements.

Management's Discussion and Analysis

This supplementary information is required for state and local government financial statements and is intended to provide a narrative introduction and analysis.

Pages 3 to 8

Government-wide Financial Statements

Provides information on governmental and business-type activities of the primary government.

Pages 9 to 11

Fund Financial Statements

Provides information on the financial position of specific funds of the primary governments.

Pages 12 to 18

Notes to Financial Statements

Provides a summary of significant accounting policies and related disclosures.

Pages 19 to 31

OVERVIEW OF THE FINANCIAL STATEMENTS - (Continued)

Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities

The analysis of the Port's overall financial condition and operations begins on page 5. Its primary purpose is to show whether the Port's financial condition improved or declined as a result of the year's activities. The Statement of Net Position includes all the Port's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the Port's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. All the Port's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the Port's net position and changes in them. The Port's net position (the difference between assets and liabilities) provide one measure of the Port's financial health, or financial position. Over time, increases or decreases in the Port's net position is one indicator of whether its financial health is improving or declining. To fully assess the overall health of the Port, however, you should consider non-financial factors as well, such as changes in the Port's property tax base and the condition of the Port's facilities.

In the Statement of Net Position and the Statement of Activities, we disclose the Port's two types of activities:

Governmental activities - All of the Port's basic services are reported here. User fees finance most of these activities.

Business-type activities - The Port accounts for its storage fees and related expenses for the AN/NH3 Facility.

Fund Financial Statements

The fund financial statements begin on page 12 and provide detailed information about the most significant funds - not the Port as a whole. Laws and contracts require the Port to establish some funds. The Port's administration establishes other funds to help it control and manage money for particular purposes such as debt service and capital projects.

Governmental funds - All of the Port's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the Port's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Port, assets exceeded liabilities by \$54,484,021 at the close of the year ended June 30, 2018.

The Port's net investment in capital assets, is \$30,431,543, 55.85% of total net position, which, reflects its investment in capital assets (i.e., land, buildings, machinery, and equipment), less a related debt used to acquire those assets that are still outstanding. The Port uses these capital assets to provide services to its customers; consequently, these assets are not available for future spending. Although the Port's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Calhoun Port Authority

Net Position

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Assets						
Current assets	\$ 22,363,179	\$ 19,821,099	\$ 3,445,447	\$ 3,335,373	\$ 25,808,626	\$ 23,156,472
Internal balances	32,400,000	32,400,000	(32,400,000)	(32,400,000)	-	-
Capital assets (net)	46,986,379	47,886,112	15,845,164	16,820,800	62,831,543	64,706,912
Total assets	<u>101,749,558</u>	<u>100,107,211</u>	<u>(13,109,389)</u>	<u>(12,243,827)</u>	<u>88,640,169</u>	<u>87,863,384</u>
Liabilities						
Current liabilities	262,054	498,360	39,217	99,578	301,271	597,938
Long-term debt, net of current portion	32,400,000	32,400,000	-	-	32,400,000	32,400,000
Total liabilities	<u>32,662,054</u>	<u>32,898,360</u>	<u>39,217</u>	<u>99,578</u>	<u>32,701,271</u>	<u>32,997,938</u>
Deferred inflow of resources						
Unearned revenue	1,175,974	1,221,548	278,903	278,903	1,454,877	1,500,451
Total inflows of resources	<u>1,175,974</u>	<u>1,221,548</u>	<u>278,903</u>	<u>278,903</u>	<u>1,454,877</u>	<u>1,500,451</u>
Net position						
Net investment in capital assets	46,986,379	47,886,112	(16,554,836)	(15,579,201)	30,431,543	32,306,911
Unrestricted	20,925,151	18,101,191	3,127,327	2,956,893	24,052,478	21,058,084
Total net position	<u>\$ 67,911,530</u>	<u>\$ 65,987,303</u>	<u>\$ (13,427,509)</u>	<u>\$ (12,622,308)</u>	<u>\$ 54,484,021</u>	<u>\$ 53,364,995</u>

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

Calhoun Port Authority**Changes in Net Position**

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues						
Charges for services	\$ 9,532,237	\$ 7,610,919	\$ 4,663,922	\$ 2,769,133	\$ 14,196,159	\$ 10,380,052
General revenues	1,023,464	451,314	28,141	14,909	1,051,605	466,223
Total revenues	10,555,701	8,062,233	4,692,063	2,784,042	15,247,764	10,846,275
Expenses						
Port operations	8,631,474	6,658,685	-	-	8,631,474	6,658,685
AN/NH3 Facility	-	-	5,497,264	3,873,422	5,497,264	3,873,422
Total expenses	8,631,474	6,658,685	5,497,264	3,873,422	14,128,738	10,532,107
Change in net position	1,924,227	1,403,548	(805,201)	(1,089,380)	1,119,026	314,168
Extraordinary item	-	(26,769,026)	-	-	-	(26,769,026)
Net position - beginning	65,987,303	91,352,781	(12,622,308)	(11,532,928)	53,364,995	79,819,853
Net position - ending	\$ 67,911,530	\$ 65,987,303	\$ (13,427,509)	\$ (12,622,308)	\$ 54,484,021	\$ 53,364,995

* The cost of all governmental activities this year was \$8,631,474 compared to \$6,658,685 last year.

FINANCIAL ANALYSIS OF THE PORT'S FUNDS

As the Port completed the year, its governmental funds reported a combined fund balance of \$53,323,465 which is an increase of \$2,823,809 from last year's total of \$50,499,656. Included in this year's total change in fund balance is an increase of \$2,823,800 in the Port's General Fund and an increase of \$9 in the CCNIDA.

At the end of 2018, the General Fund's unassigned fund balance was \$20,922,575.

BUDGETARY HIGHLIGHTS

Over the course of the year, the Port's Commissioners revised the Port's budget. These budget amendments occurred as a result of operating conditions that varied from anticipated levels. The original budget estimated operating revenues of \$8,126,085 and expenditures of \$6,709,606. Due to changes in the operations, the estimated revenues were revised to \$10,331,981 and expenditures were increased to \$7,904,178. Actual expenditures were less than the budget by \$172,437 due to less being expended on the South Peninsula Project.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Port's investment in capital assets for its governmental and business-type activities amounts to \$62,831,543 (net of accumulated depreciation) at the end of the current fiscal year. This investment in capital assets includes land, buildings, improvements, vehicles, machinery and equipment, and infrastructure. The net decrease in the Port's investment in capital assets was \$1,875,368 (a 1.88% decrease for governmental activities and a 5.8% decrease in business-type activities).

Calhoun Port Authority

Capital Assets (Net of Depreciation)

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 9,361,151	\$ 9,319,447	\$ 65,000	\$ 65,000	\$ 9,426,151	\$ 9,384,447
Construction in progress	3,052,747	1,566,997	-	-	3,052,747	1,566,997
Machinery and equipment	281,851	282,355	685,703	685,704	967,554	968,059
Buildings and improvements	1,251,806	1,250,572	-	-	1,251,806	1,250,572
Infrastructure	33,038,824	35,466,741	15,094,461	16,070,096	48,133,285	51,536,837
Total	<u>\$ 46,986,379</u>	<u>\$ 47,886,112</u>	<u>\$ 15,845,164</u>	<u>\$ 16,820,800</u>	<u>\$ 62,831,543</u>	<u>\$ 64,706,912</u>

More detailed information about the Port's capital assets is presented in Note 4 to the financial statements.

Long-term Debt

As of June 30, 2018, the Port had long-term debt outstanding of \$32,400,000. This amount is comprised of general revenue bonds and is fully guaranteed BP Amoco. Additional information regarding the Port's long-term debt can be found in Note 5 to the financial statements on pages 27 and 28. The following table summarizes the Port's long-term debt outstanding as of June 30, 2018 and 2017:

	2018	2017
General Revenue Bonds	<u>\$ 32,400,000</u>	<u>\$ 32,400,000</u>
Total long-term debt	<u>\$ 32,400,000</u>	<u>\$ 32,400,000</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Port has a lease agreement with NGL Crude Terminals for a 10 year period on 17.85 acres for \$446,250 per year. There are two storage tanks for crude oil and condensate that will total 355,000 barrels. The total throughput via the terminal for the first quarter of FY2019 is 205,526.5 short tons of crude oil via barges. The lease has a guaranteed annual throughput of 500,000 short tons.

Matagorda Bay Costa Azul Terminal, LLC, has been assigned the SN Terminal LLC lease on 35.55 acres. Matagorda Bay Costa Azul LLC is a wholly owned subsidiary of NGL Energy and will use this property to expand their storage capacity at the Calhoun Port Authority. This lease has a guaranteed throughput on their acreage of 300,000 short tons.

NST Point Comfort Holdings LLC has constructed a 100,000 barrel storage facility for crude oil and condensate shipments via the port on deep draft vessels and barges. The total guaranteed throughput for the facility is 500,000 short tons per year. NST purchased a twelve inch pipe line from CrossTex Pipeline that originates outside of Edna, Texas and terminates inside the NST leasehold. This line will be utilized to tie into other pipe lines coming out of the Eagle Ford Shale play to bring crude oil and condensate into the NST storage facility. NST Point Comfort Holdings has moved approximately 12,448.8 short tons of crude oil and condensate during the first quarter of FY2019.

The Calhoun Port Authority has leased 11.76 acres of land to Arrowhead Pipeline for \$7,500.00 per acre for a 10 year initial period with the annual lease payment being \$88,200.00. Arrowhead has the option of renewing the lease for four, five year periods. Arrowhead has constructed a 200,000.00 barrel storage tank for crude oil and condensate that will be shipped out of the Port in barges and deep draft vessels. Harvest is expecting to begin shipping crude oil and condensate beginning in April of 2018 across the port's general cargo dock. Guaranteed throughput for this lease is 500,000.000 short tons per year. Arrowhead has moved 55,854.7 short tons during the first quarter of FY2019.

The Calhoun Port Authority has entered into an option to lease agreement for approximately 45.0 acres of land located on the Port's South Peninsula property with Namerico Energy Holdings, LLC for a 1 year period beginning August 9, 2017 and ending on August 8, 2018 for an option fee of \$237,500.00. Namerico did not renew the lease option for FY2019.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Port's finances and to show the Port's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Port's business office, at Calhoun Port Authority, Port Director, P.O. Box 397, Point Comfort, Texas 77978.

Basic Financial Statements

CALHOUN PORT AUTHORITY
STATEMENT OF NET POSITION
June 30, 2018

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 21,620,648	\$ 2,777,211	\$ 24,397,859
Receivables (net)	664,147	499,486	1,163,633
Prepaid items	78,384	168,750	247,134
Internal balances	32,400,000	(32,400,000)	-
Total current assets	54,763,179	(28,954,553)	25,808,626
Noncurrent assets			
Capital assets			
Land and other assets not being depreciated	12,413,898	65,000	12,478,898
Buildings, improvements, and equipment (net)	34,572,481	15,780,164	50,352,645
Total noncurrent assets	46,986,379	15,845,164	62,831,543
Total assets	101,749,558	(13,109,389)	88,640,169
LIABILITIES			
Current liabilities			
Accounts payable	262,054	39,217	301,271
Total current liabilities	262,054	39,217	301,271
Noncurrent liabilities			
Noncurrent portion of long-term obligations	32,400,000	-	32,400,000
Total noncurrent liabilities	32,400,000	-	32,400,000
Total liabilities	32,662,054	39,217	32,701,271
DEFERRED INFLOW OF RESOURCES			
Unearned lease income and other fees	1,175,974	278,903	1,454,877
Total deferred inflows of resources	1,175,974	278,903	1,454,877
NET POSITION			
Net investment in capital assets	46,986,379	(16,554,836)	30,431,543
Unrestricted net position	20,925,151	3,127,327	24,052,478
Total net position	\$ 67,911,530	\$ (13,427,509)	\$ 54,484,021

The accompanying notes are an integral part of this statement.

CALHOUN PORT AUTHORITY
STATEMENT OF ACTIVITIES
For the year ended June 30, 2018

Function/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities				
Port operations	\$ 8,631,474	\$ 9,433,727	\$ 98,510	\$ -
Total governmental activities	<u>8,631,474</u>	<u>9,433,727</u>	<u>98,510</u>	<u>-</u>
Business-type activities				
AN/NH3 Facility	<u>5,497,264</u>	<u>4,663,922</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>5,497,264</u>	<u>4,663,922</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 14,128,738</u>	<u>\$ 14,097,649</u>	<u>\$ 98,510</u>	<u>\$ -</u>

General revenues:

Property taxes, levied for general purposes
Unrestricted investment earnings
Miscellaneous

Total general revenues and extraordinary item

Change in net position

Net position - beginning

Net position - ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and
Changes in Net Position

Primary Government

Governmental Activities	Business-type Activities	Total
\$ 900,763	\$ -	\$ 900,763
<u>900,763</u>	<u>-</u>	<u>900,763</u>
-	(833,342)	(833,342)
-	(833,342)	(833,342)
<u>900,763</u>	<u>(833,342)</u>	<u>67,421</u>
20,313	-	20,313
228,407	28,141	256,548
<u>774,744</u>	<u>-</u>	<u>774,744</u>
<u>1,023,464</u>	<u>28,141</u>	<u>1,051,605</u>
1,924,227	(805,201)	1,119,026
<u>65,987,303</u>	<u>(12,622,308)</u>	<u>53,364,995</u>
<u>\$ 67,911,530</u>	<u>\$ (13,427,509)</u>	<u>\$ 54,484,021</u>

Note: The deficit net position of the Business-type Activities is a result of the annual depreciation expense that is recorded which reduces the book value of the capital assets. The long-term debt associated with the capital assets does not decrease each year since the amount outstanding is due in one payment on January 1, 2024.

CALHOUN PORT AUTHORITY**BALANCE SHEET****GOVERNMENTAL FUNDS**

June 30, 2018

	General Fund	Industrial Development Authority	Total Governmental Funds
ASSETS			
Current assets			
Cash and cash equivalents	\$ 21,619,758	\$ 890	\$ 21,620,648
Receivables (net)	664,147	-	664,147
Prepaid expenditures	78,384	-	78,384
Noncurrent assets			
Advance to other funds	-	32,400,000	32,400,000
Total assets	<u>\$ 22,362,289</u>	<u>\$ 32,400,890</u>	<u>\$ 54,763,179</u>
LIABILITIES			
Accounts payable	\$ 262,054	\$ -	\$ 262,054
Total liabilities	<u>262,054</u>	<u>-</u>	<u>262,054</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	1,686	-	1,686
Unearned revenue - leases and fees	1,175,974	-	1,175,974
Total deferred inflows of resources	<u>1,177,660</u>	<u>-</u>	<u>1,177,660</u>
Fund balances			
Nonspendable			
Non-current receivables	-	32,400,000	32,400,000
Unassigned	20,922,575	890	20,923,465
Total fund balances	<u>20,922,575</u>	<u>32,400,890</u>	<u>53,323,465</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 22,362,289</u>	<u>\$ 32,400,890</u>	<u>\$ 54,763,179</u>

The accompanying notes are an integral part of this statement.

CALHOUN PORT AUTHORITY**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION
OF GOVERNMENTAL ACTIVITIES***June 30, 2018*

Total governmental fund balances	\$ 53,323,465
<i>Amounts reported for governmental activities in the statement of net position are different because:</i>	
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as "unearned" in the funds.	1,686
Capital assets used in governmental activities are reported as expenditures in governmental funds when purchased or constructed. The cost of these assets is \$136,086,177 and the accumulated depreciation is \$89,099,798.	46,986,379
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
Bonds payable	<u>(32,400,000)</u>
Net position of governmental activities	<u>\$ 67,911,530</u>

The accompanying notes are an integral part of this statement.

CALHOUN PORT AUTHORITY**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**
GOVERNMENTAL FUNDS*For the year ended June 30, 2018*

	<u>General Fund</u>	<u>Industrial Development Authority</u>	<u>Total Governmental Funds</u>
REVENUES			
Taxes			
Ad valorem taxes	\$ 20,162	\$ -	\$ 20,162
Charges for services			
Wharfage	1,625,623	-	1,625,623
Dockage	1,982,018	-	1,982,018
Leases	4,847,278	-	4,847,278
Usage fees	641,308	-	641,308
Option fees	337,500	-	337,500
Investment income			
Interest	228,398	9	228,407
Intergovernmental	98,510	-	98,510
Miscellaneous	774,744	-	774,744
Total revenues	<u>10,555,541</u>	<u>9</u>	<u>10,555,550</u>
EXPENDITURES			
Current			
Administrative			
Personnel costs	1,770,144	-	1,770,144
Other	311,207	-	311,207
Maintenance and operations	2,836,559	-	2,836,559
Security	314,053	-	314,053
Debt service contribution	233,078	-	233,078
Professional services	2,224,996	-	2,224,996
Capital outlay	41,704	-	41,704
Total expenditures	<u>7,731,741</u>	<u>-</u>	<u>7,731,741</u>
Excess (deficiency) of revenues over expenditures	2,823,800	9	2,823,809
Fund balances - beginning	<u>18,098,775</u>	<u>32,400,881</u>	<u>50,499,656</u>
Fund balances - ending	<u>\$ 20,922,575</u>	<u>\$ 32,400,890</u>	<u>\$ 53,323,465</u>

The accompanying notes are an integral part of this statement.

CALHOUN PORT AUTHORITY**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**
For the year ended June 30, 2018

Total net change in fund balances - governmental funds	\$ 2,823,809
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Amounts reported for governmental activities in the statement of activities are different because:

Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of removing the 2017-2018 capital outlays is to increase net position.

Increase in capital assets	\$ 1,643,141	
Depreciation	<u>(2,542,874)</u>	(899,733)

Because some property taxes will not be collected for several months after the Port's fiscal year ends, they are not considered "available" revenues and are reported as "unavailable" in the governmental funds.

Property taxes	<u>151</u>
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Change in net position of governmental activities	<u>\$ 1,924,227</u>
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The accompanying notes are an integral part of this statement.

CALHOUN PORT AUTHORITY
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2018

	Business-type Activities <u>AN/NH3 Facility</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 2,777,211
Receivables (net)	499,486
Prepaid items	168,750
Total current assets	<u>3,445,447</u>
Capital assets, net	<u>15,845,164</u>
Total assets	<u>19,290,611</u>
LIABILITIES	
Current liabilities	
Accounts payable	<u>39,217</u>
Total current liabilities	<u>39,217</u>
Noncurrent liabilities	
Advance from other funds	<u>32,400,000</u>
Total noncurrent liabilities	<u>32,400,000</u>
Total liabilities	<u>32,439,217</u>
DEFERRED INFLOW OF RESOURCES	
Unearned lease income and other fees	<u>278,903</u>
Total deferred inflows of resources	<u>278,903</u>
NET POSITION	
Net investment in capital assets	(16,554,836)
Unrestricted net position	<u>3,127,327</u>
Total net position	<u>\$ (13,427,509)</u>

The accompanying notes are an integral part of this statement.

CALHOUN PORT AUTHORITY**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS***For the year ended June 30, 2018*

	Business-type Activities <u>AN/NH3 Facility</u>
OPERATING REVENUES	
Fees	\$ <u>4,663,922</u>
OPERATING EXPENSES	
Operating expenses	4,112,167
Depreciation	<u>975,635</u>
Total operating expenses	<u>5,087,802</u>
Operating income (loss) before nonoperating revenues (expenses)	(423,880)
NONOPERATING REVENUES (EXPENSES)	
Investment income	28,141
Interest and fiscal charges	<u>(409,462)</u>
Net nonoperating revenues (expenses)	<u>(381,321)</u>
Change in net position	(805,201)
Total net position at beginning of year	<u>(12,622,308)</u>
Total net position at end of year	\$ <u>(13,427,509)</u>

The accompanying notes are an integral part of this statement.

CALHOUN PORT AUTHORITY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the year ended June 30, 2018

	Business-type Activities <u>AN/NH3 Facility</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 4,418,384
Cash payments to suppliers for goods and services	<u>(4,172,527)</u>
Net cash provided (used) by operating activities	<u>245,857</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Interest and finance charges paid on bonds	<u>(409,462)</u>
Net cash provided (used) by capital and related financing activities	<u>(409,462)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	<u>28,141</u>
Net cash provided by investing activities	<u>28,141</u>
Net increase (decrease) in cash and cash equivalents	(135,464)
Cash and cash equivalents at beginning of year	<u>2,912,675</u>
Cash and cash equivalents at end of year	<u>\$ 2,777,211</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating income (loss)	\$ (423,880)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities	
Depreciation	975,635
Changes in assets and liabilities	
(Increase) decrease in accounts receivable	(245,538)
Increase (decrease) in accounts payable	<u>(60,361)</u>
Net cash provided (used) by operating activities	<u>\$ 245,856</u>

The accompanying notes are an integral part of this statement.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Calhoun Port Authority (the "Port"), formerly known as the Calhoun County Navigation District, was created as a conservation and reclamation district pursuant to Article XVI, Section 59 of the Texas Constitution by Chapter 195, Acts of the 53rd Texas Legislature, Regular Session, 1953. The Port operates under a Board of Commissioners/Port Director form of government and provides and maintains port facilities for shipping purposes.

The Port was organized to facilitate the construction of a deep water navigation channel from the Gulf of Mexico to the Point Comfort, Calhoun County, Texas, dock facilities and turning basin. The Port has patents to all lands upon which the channels and jetties are situated; however, the United States Army Corps of Engineers has control over the use and maintenance of the jetties.

The Port's Commissioners are elected by the public and have the legal authority to govern, assess taxes, and designate management. The Port is financially independent with respect to any other subdivision, political or otherwise.

The accounting and reporting policies of the Port conform to generally accepted accounting principles (GAAP), as applicable to governmental units.

A. Reporting Entity

In evaluating how to define the government, for financial reporting purposes, the Port's Commissioners have considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14, *The Financial Reporting Entity*, and as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Under these guidelines the reporting entity consists of the primary government (all funds of the Port), organizations for which the primary government is financially accountable, organizations for which the primary government is not financially accountable, organizations that raise and hold economic resources for the direct benefit of the primary government, and any other organization for which the nature and significance of the relationship with the primary government is such that exclusion could cause the Port's financial statements to be misleading or incomplete. The component unit discussed in this note is included in the Port's financial statements because of the significance of its relationship with the Port.

The following component unit is included in the accompanying financial statements:

In the "Governmental Funds" financial statements of the Port, the Special Revenue Fund represents the Calhoun County Navigation Industrial Development Authority (the "Authority"), a non-profit industrial development corporation organized under the Development Corporation Act of 1979. The Port's Board of Commissioners and Port Director also serve as the Board for the Authority, which gives the Port oversight responsibilities with respect to the Authority. The Authority is considered a blended component unit of the Port under the criteria of GASB Statement No. 14. Separate financial statements of the Authority may be obtained from the office of the Port.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Government-wide and Fund Financial Statements

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Port considers revenues to be available if they are collected within 60 days of the end of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, fees for services and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Port.

The proprietary fund type is accounted for on a flow of *economic resources measurement focus* and utilize the *accrual basis of accounting*. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Position. The fund equity is segregated into net investment in capital assets, restricted net position, and unrestricted net position.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation - (Continued)

The Port reports the following major governmental funds:

The General Fund is the Port's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Industrial Development Authority Fund, which is a special revenue fund, is established to account for the operations of the Authority, a blended component unit of the Port.

The Port reports the following major proprietary fund:

The AN/NH3 Facility Fund, an enterprise fund, is established to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered through user charges.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between various functions of the Port. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Port's enterprise fund is storage fees and lease revenue. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Budgets and Budgetary Accounting

The budget for the General Fund is adopted on a GAAP basis. The budget is amended by a quorum of the Commissioners. A budget comparison is presented for the General Fund in the required supplementary information. The fund level is the legal level of budgetary control. The Port does not employ the use of encumbrances in its budgetary accounting.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

E. Deposits and Investments

The Port's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The Port may invest its excess funds in any instruments authorized by the Public Funds Investment Act of Texas. Investments authorized under this Act include, but are not limited to, the following: Obligations of the United States or its agencies and instrumentalities; direct obligations of the State of Texas or its agencies and instrumentalities; collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; certificates of deposit issued by a state or financial institution domiciled in the State of Texas which is guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or otherwise secured; and certain repurchase agreements.

F. Other Accounting Policies

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

All trade and property tax receivables are shown net of an allowance for uncollectibles.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods. These payments are reported as deferred expenditures (governmental funds) or prepaid expenses (proprietary funds) in the fund financial statements and as deferred expenditures/expenses in the government-wide statements.

Capital Assets

Capital assets, which include land, structures, and equipment are reported in the applicable governmental activities column in the government-wide statement of net position. The Port defines capital assets as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

F. Other Accounting Policies - (Continued)

Capital Assets - (Continued)

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

The Port's capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	6-40
Buildings	20-40
Equipment	5-20

Long-term Obligations

In the government-wide financial statements, long-term debt is reported as liabilities in the applicable governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Deferred Inflows of Resources

The statement of net position also reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Port has two types of items, which arise under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. In addition, the Port also reports unearned revenues from various leases in this category.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

F. Other Accounting Policies - (Continued)

Fund Equity

GASB Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*," (the "Statement") was issued in February 2009. This Statement eliminates the requirement to report governmental fund balances as reserved, unreserved, or designated. It replaces those categories with five possible classifications of governmental fund balances - nonspendable, restricted, committed, assigned, and unassigned. This Statement also redefines the governmental funds for clarity and to be consistent with these new fund balance classifications. The provisions of this Statement are effective for periods beginning after June 15, 2010. The Port did not adopt a new fund balance policy in accordance with GASB Statement No. 54 during fiscal year 2018. This Statement did not have an impact on the Port's functions, financial position or results of operations.

Use of Estimates

The preparation of the government-wide and fund financial statements in conformity with generally accepted accounting principles requires management to make estimates and assessments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 2: DEPOSITS AND INVESTMENTS

The Port's funds are deposited and invested under the terms of the depository contract. The depository bank, First National Bank in Port Lavaca, deposits for safekeeping and trust with agent bank, approved pledged securities in an amount sufficient to protect the Port's funds on a day-to-day basis during the period of the contract. The pledge-approved securities are waived only to the extent of the depository bank's dollar amount of FDIC insurance.

As of June 30, 2018, the carrying amount of the Port's deposits was \$24,397,859 and the bank balance was \$24,386,150. The Port's depository bank, First National Bank, pledges securities as collateral for the Port's deposits. The amount of the Port's deposits covered by a combination of collateral and federal depository insurance at June 30, 2018, was as follows:

Securities pledged as collateral (at market value)	\$ 24,439,026
Federal depository insurance	<u>250,000</u>
Total coverage	<u>\$ 24,689,026</u>

Interest Rate Risk

At year-end, the Port was not exposed to concentration of interest rate risk.

Credit Risk

At year-end, the Port was not exposed to credit risk.

NOTE 2: DEPOSITS AND INVESTMENTS - (Continued)Concentration of Credit Risk

The Port's investment policy requires that the investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce the risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific user. At year-end, the Port was not exposed to concentration of credit risk.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Port's deposits may not be returned to it. At June 30, 2018, the Port was not exposed to custodial credit risk.

NOTE 3: RECEIVABLES

Receivables at June 30, 2018, consist of the following:

	<u>General</u>	<u>Industrial Development</u>	<u>AN/NH3 Facility</u>	<u>Total</u>
Gross receivables:				
Accounts	\$ 662,461	\$ -	\$ 499,486	\$ 1,161,947
Ad valorem taxes	<u>1,686</u>	<u>-</u>	<u>-</u>	<u>1,686</u>
Total gross receivables	664,147	-	499,486	1,163,633
Less: allowances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total net receivables	<u>\$ 664,147</u>	<u>\$ -</u>	<u>\$ 499,486</u>	<u>\$ 1,163,633</u>

The Port's governmental funds report unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

At the end of the current fiscal year, the various components of deferred inflows reported in the governmental funds were as follows:

General Fund

Ad valorem taxes receivable	\$ -	\$ 1,686	\$ 1,686
Leases	<u>1,175,974</u>	<u>-</u>	<u>1,175,974</u>
Total	<u>\$ 1,175,974</u>	<u>\$ 1,686</u>	<u>\$ 1,177,660</u>

The Port's ad valorem property tax is levied each October 1 on the assessed value listed as of the prior January 1st for all real and business personal property located in the Port. Taxes are delinquent by February 1st following the October 1st levy date. A statutory lien becomes effective on all property with unpaid taxes as of January 1st of the year following the assessment.

NOTE 4: CAPITAL ASSETS

The Port's capital asset activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 9,319,447	\$ 41,704	\$ -	\$ 9,361,151
Construction in progress	1,566,997	1,485,750	-	3,052,747
Total capital assets not being depreciated	10,886,444	1,527,454	-	12,413,898
Capital assets, being depreciated				
Machinery and equipment	1,968,404	47,188	-	2,015,592
Buildings	3,550,008	68,499	-	3,618,507
Infrastructure	118,038,180	-	-	118,038,180
Total capital assets being depreciated	123,556,592	115,687	-	123,672,279
Less accumulated depreciation for				
Machinery and equipment	1,686,049	47,692	-	1,733,741
Buildings	2,299,436	67,265	-	2,366,701
Infrastructure	82,571,439	2,427,917	-	84,999,356
Total accumulated depreciation	86,556,924	2,542,874	-	89,099,798
Total capital assets being depreciated, net	36,999,668	(2,427,187)	-	34,572,481
Governmental activities capital assets, net	\$ 47,886,112	\$ (899,733)	\$ -	\$ 46,986,379
Business-type activities				
Capital assets, not being depreciated				
Land	\$ 65,000	\$ -	\$ -	\$ 65,000
Total capital assets not being depreciated	65,000	-	-	65,000
Capital assets, being depreciated				
Machinery and equipment	1,111,578	-	-	1,111,578
Infrastructure	32,610,122	-	-	32,610,122
Total capital assets being depreciated	33,721,700	-	-	33,721,700
Less accumulated depreciation for				
Machinery and equipment	425,875	-	-	425,875
Infrastructure	16,540,026	975,635	-	17,515,661
Total accumulated depreciation	16,965,901	975,635	-	17,941,536
Total capital assets being depreciated, net	16,755,799	(975,635)	-	15,780,164
Business-type activities capital assets, net	\$ 16,820,799	\$ (975,635)	\$ -	\$ 15,845,164
Governmental activities:				
Port operations			\$ 2,542,874	
Total depreciation expense - governmental activities			\$ 2,542,874	
Business-type activities				
AN/NH3 Facility			\$ 975,635	
Total depreciation expense - business-type activities			\$ 975,635	

NOTE 5: BONDS PAYABLE

During the year ended June 30, 1998, the Port Authority and BP Chemicals, Inc. (BPC), BPC entered into an interim financing agreement whereby the Authority agreed to construct a port storage tank and marine transfer facility (Facility). BPC provided the interim financing to the Authority for the construction of the Facility, which would ultimately be owned and operated by the Port.

Under the terms of the agreement, the Industrial Authority issued port revenue bonds (Bonds) during December 1998. Proceeds from the Bonds were used to repay BPC for the construction advances that it provided and to cover the cost of completion of the Facility. Once completed, the Facility was sold by the Authority to the Port for \$30,000,000 under a seller-financing agreement. The resulting loan payable from the Port to the Authority carries terms that are identical to those of the Bonds (see bonds' terms below). On the statement of net position, the loan payable is reflected as "Internal Balances" under Governmental Activities and Business-type Activities. The bonds payable are reflected as "Noncurrent Liabilities Due in More Than One Year" under Governmental Activities. Accrued interest payable, if any, on the outstanding loan principal is included as a liability under business-type activities. On the Governmental Funds Balance Sheet, the loan payable is reflected as "Advances to Other Fund" under Special Revenue. On the Proprietary Funds Statement of Net Position, the loan payable is reflected as "Advances From Other Fund".

In conjunction with the transactions described above, the Port, the Authority, and BPC entered into several related agreements setting forth the following terms:

- BPC *fully guarantees* payment of the Bonds (including interest).
- BPC will be the primary user of, and have preferential rights to reserve the use of, the Facility.
- Revenue generated from Facility operations will be used to meet debt service obligations of the Bonds.
- BPC guarantees that payments to the Port for use of the Facility will be in an amount adequate to cover operating costs of the Facility plus debt service obligations of the Bonds.
- After a period of 25 years (beginning with the initial delivery date of the Bonds), the Facility will be sold by the Port through competitive bidding. BPC shall have the right of first refusal to acquire the Facility by matching the highest bid (if from a party other than BPC).

The terms of the Bonds are as follows:

Issue: Calhoun County Navigation Industrial Development Authority Port Revenue Bonds (The British Petroleum Company p.l.c., guarantor), Series 1998

Maturity Date: January 1, 2024

Interest Rate: Variable (range of 0.95% to 1.87% during the year ended June 30, 2018)

Interest is paid periodically as it becomes due. Interest paid during the year ended June 30, 2018 totaled \$376,233. The entire principal balance of \$30,000,000 is due January 1, 2024.

NOTE 5: BONDS PAYABLE - (Continued)

On December 18, 2003, the Industrial Authority issued port revenue bonds of \$2,400,000, the proceeds of which were used to construct a new AN/NH3 tank. The bonds were issued pursuant to agreements with terms very similar to the agreements used for the \$30,000,000 issue described above. The three parties to the agreements are the same for this \$2,400,000 issue as they were for the \$30,000,000 issue; and the accounting for the \$2,400,000 issue is identical to that of the \$30,000,000 issue.

The terms of the \$2,400,000 bond issue are as follows:

Issue: Calhoun County Navigation Industrial Development Authority Port Revenue Bonds (BP p.l.c., guarantor), Series 2003

Maturity Date: January 1, 2024

Interest Rate: Variable (range of 0.60% to 1.88% during the year ended June 30, 2018)

Interest is paid periodically as it becomes due. Interest paid during the year ended June 30, 2018 totaled \$26,816. The entire principal balance of \$2,400,000 is due January 1, 2024.

Long-term liability activity for the year ended June 30, 2018, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities					
Port Revenue Bonds	\$ 32,400,000	\$ -	\$ -	\$ 32,400,000	\$ -
Total long-term liabilities	\$ 32,400,000	\$ -	\$ -	\$ 32,400,000	\$ -

The interest rates are variable and as of June 30, 2018 the rates were 1.31% for the 2003 issue and 1.42% for the 1998 issue. Using these rates, annual interest expense would be \$457,440.

NOTE 6: REVENUE BONDS ISSUED ON BEHALF OF OTHERS

The Authority and the Port have assisted industries within the district by issuing revenue bonds on their behalf (see Note 1). For each of these bond issues, the Authority or the Port acted as an issuing conduit so that the user of the bond proceeds benefited from reduced debt service requirements. The users of the bond proceeds pledge their credit, bear sole responsibility for all debt service, make all payments directly to the trustee, and completely indemnify the Authority and the Port for any costs incurred. Therefore, these bonds do not constitute indebtedness of the Authority or the Port and are not reported in the Port's financial statements.

Revenue bonds outstanding at June 30, 2018, are as follows:

<u>Series</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Effective Interest Rate</u>	<u>Original Amount</u>	<u>Outstanding at 6-30-18</u>
Port Revenue Bonds (Formosa Plastics Corporation, Texas Project)					
2000	05-12-00	05-01-20	Variable	\$ 5,500,000	\$ 5,500,000
Solid Waste Disposal Revenue Bonds (Formosa Plastics Corporation)					
2000	05-12-00	05-01-25	Variable	\$ 25,000,000	\$ 25,000,000
Solid Waste Disposal Revenue Bonds (Formosa Plastics Corporation)					
2001	05-02-01	05-01-31	Variable	\$ 25,000,000	\$ 25,000,000
Pollution Control Revenue Bonds (Formosa Plastics Corporation)					
2002	09-01-02	09-01-32	Variable	\$ 10,000,000	\$ 10,000,000
Environmental Facilities Revenue Bonds (Formosa Plastics Corporation)					
2004	05-01-04	05-01-34	Variable	\$ 13,775,000	\$ 13,775,000
Tax-Exempt Adjustable Mode Environmental Facilities Revenue Bonds (Formosa Plastics Corp.)					
2006	06-29-06	06-01-36	Variable	\$ 28,500,000	\$ 28,500,000
Adjustable Mode Environmental Facilities Revenue Bonds (Formosa Plastics Corporation)					
2007	11-15-07	11-01-37	Variable	\$ 50,000,000	\$ 50,000,000
Adjustable Mode Environmental Facilities Revenue Bonds (Formosa Plastics Corporation)					
2008	12-03-08	11-01-38	Variable	\$ 50,000,000	\$ 50,000,000
Adjustable Mode Port Revenue Bonds (Formosa Plastics Corporation)					
2011A	09-29-11	09-01-39	Variable	\$ 32,300,000	\$ 32,300,000
Adjustable Mode Environmental Facilities Revenue Bonds (Formosa Plastics Corporation)					
2011B	09-29-11	09-01-41	Variable	\$ 45,000,000	\$ 45,000,000
Adjustable Mode Port Revenue Bonds (Formosa Plastics Corporation)					
2011C	09-29-11	09-01-31	Variable	\$ 27,500,000	\$ 27,500,000
Adjustable Mode Environmental Facilities Revenue Bonds (Formosa Plastics Corporation)					
2012	04-26-12	04-01-42	Variable	\$ 50,000,000	\$ 50,000,000

NOTE 7: RISK MANAGEMENT

The Port is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Port purchased commercial insurance to cover risks associated with potential claims during fiscal year 2018. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

The Port is subject to claims and lawsuits which arise primarily in the ordinary course of business. As of June 30, 2018, management was not aware of any material pending or threatened litigation.

NOTE 8: OPERATING LEASES

The Port leases buildings, land, pipelines, and easements, the original cost of which cannot be readily determined, to several entities under operating leases expiring in various years through 2041. At June 30, 2018, minimum future rental revenues are expected to be as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2019	\$ 4,769,088
2020	4,744,432
2021	4,695,941
2022	4,429,856
2023	<u>2,219,332</u>
	20,858,649
Thereafter	<u>24,663,365</u>
	<u>\$ 45,522,014</u>

There are various renewal options to extend the leases and these revenues are not reflected above.

- * The drop in anticipated revenue is due to the potential for Alcoa to terminate their lease with the Port after the third year of the contract.

NOTE 9: DEFERRED COMPENSATION PLAN

The Port offers its employees and board members a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all full-time Port employees, permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, or unforeseeable emergency. The deferred compensation is available to employees' beneficiaries in the case of death.

Eligibility of employees for Port contributions to the plan will be one year of full-time, uninterrupted employment. Port contributions to the plan on behalf of employees are as follows:

<u>Years of Employment</u>	<u>% of Base Annual Salary Contributed</u>
One	2.83%
Two	5.67%
Three or more	8.50%

NOTE 9: DEFERRED COMPENSATION PLAN - (Continued)

Board members are eligible for Port contributions to the plan upon commencement of their elected terms. Port contributions to the plan on behalf of board members are fixed at \$125 per month per member. However, board members are not considered to be employees of the Port. Accordingly, board members are not allowed to defer any portion of their board service fees into the plan.

The Port contributes to the plan on behalf of all eligible employees and board members. For the fiscal year ended June 30, 2018, the Port contributed \$92,246 to the plan.

NOTE 10: COMPENSATED ABSENCES

Port employees are not paid for unused sick days upon termination. However, the Port's personnel policy authorizes the Port to purchase up to 56 hours of unused sick leave annually from each full-time employee.

The amount of vacation pay due to employees as of June 30, 2018, is immaterial to the financial statements taken as a whole. Consequently, no liability has been accrued for compensated absences.

NOTE 11: COMMITMENTS AND CONTINGENCIES

The Port has a lease agreement with NGL Crude Terminals for a 10 year period on 17.85 acres for \$446,250 per year. There are two storage tanks for crude oil and condensate that will total 355,000 barrels. The total throughput via the terminal for the first quarter of FY2019 is 205,526.5 short tons of crude oil via barges. The lease has a guaranteed annual throughput of 500,000 short tons.

Matagorda Bay Costa Azul Terminal, LLC, has been assigned the SN Terminal LLC lease on 35.55 acres. Matagorda Bay Costa Azul LLC is a wholly owned subsidiary of NGL Energy and will use this property to expand their storage capacity at the Calhoun Port Authority. This lease has a guaranteed throughput on their acreage of 300,000 short tons.

NST Point Comfort Holdings LLC has constructed a 100,000 barrel storage facility for crude oil and condensate shipments via the port on deep draft vessels and barges. The total guaranteed throughput for the facility is 500,000 short tons per year. NST purchased a twelve inch pipe line from CrossTex Pipeline that originates outside of Edna, Texas and terminates inside the NST leasehold. This line will be utilized to tie into other pipe lines coming out of the Eagle Ford Shale play to bring crude oil and condensate into the NST storage facility. NST Point Comfort Holdings has moved approximately 12,448.8 short tons of crude oil and condensate during the first quarter of FY2019.

The Calhoun Port Authority has leased 11.76 acres of land to Arrowhead Pipeline for \$7,500.00 per acre for a 10 year initial period with the annual lease payment being \$88,200.00. Arrowhead has the option of renewing the lease for four, five year periods. Arrowhead has constructed a 200,000.00 barrel storage tank for crude oil and condensate that will be shipped out of the Port in barges and deep draft vessels. Harvest is expecting to begin shipping crude oil and condensate beginning in April of 2018 across the port's general cargo dock. Guaranteed throughput for this lease is 500,000.000 short tons per year. Arrowhead has moved 55,854.7 short tons during the first quarter of FY2019.

The Calhoun Port Authority has entered into an option to lease agreement for approximately 45.0 acres of land located on the Port's South Peninsula property with Namerico Energy Holdings, LLC for a 1 year period beginning August 9, 2017 and ending on August 8, 2018 for an option fee of \$237,500.00. Namerico did not renew the lease option for FY2019.

CALHOUN PORT AUTHORITY**MAJOR GOVERNMENTAL FUNDS - GENERAL FUND****SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE****BUDGET AND ACTUAL**

For the year ended June 30, 2018

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES				
Taxes				
Ad valorem taxes	\$ 21,967	\$ 21,967	\$ 20,162	\$ (1,805)
Charges for services				
Wharfage	1,435,000	1,760,201	1,625,623	(134,578)
Dockage	1,137,000	1,740,500	1,982,018	241,518
Annual leases	4,758,019	4,820,659	4,847,278	26,619
Usage fees	405,200	570,700	641,308	70,608
Option revenue	25,000	337,500	337,500	-
Investment income				
Interest	87,410	207,410	228,398	20,988
Intergovernmental	-	98,510	98,510	-
Miscellaneous	256,489	774,534	774,744	210
Total revenues	<u>8,126,085</u>	<u>10,331,981</u>	<u>10,555,541</u>	<u>223,560</u>
EXPENDITURES				
Current				
General government				
Personnel expenditures	1,736,022	1,824,022	1,770,144	53,878
Other administrative	303,290	312,741	311,207	1,534
Maintenance and operations	2,249,644	3,090,593	2,836,559	254,034
Security	278,000	278,000	314,053	(36,053)
Debt service contribution	50,000	50,000	233,078	(183,078)
Professional services	2,012,650	2,268,822	2,224,996	43,826
Capital outlay	80,000	80,000	41,704	38,296
Total expenditures	<u>6,709,606</u>	<u>7,904,178</u>	<u>7,731,741</u>	<u>172,437</u>
Excess (deficiency) of revenues over expenditures	1,416,479	2,427,803	2,823,800	395,997
 Fund balance - beginning	<u>18,098,775</u>	<u>18,098,775</u>	<u>18,098,775</u>	<u>-</u>
Fund balance - ending	<u>\$ 19,515,254</u>	<u>\$ 20,526,578</u>	<u>\$ 20,922,575</u>	<u>\$ 395,997</u>

The accompanying notes to required supplementary information are an integral part of this schedule.

CALHOUN PORT AUTHORITY**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION***June 30, 2018***NOTE 1: BUDGETARY INFORMATION**

The Port annually adopts budgets that are prepared using the modified accrual basis of accounting, which is consistent with generally accepted accounting principles.

The Required Supplementary Information does not include a budgetary comparison schedule for the Major Special Revenue Fund, Industrial Development Authority (the "Authority"). Due to the lack of annual operations in the fund, a budget is not adopted by the Authority and therefore a budgetary comparison schedule is not presented.

For the year ended June 30, 2018 the Port complied with budgetary restrictions at all departmental levels except the following. The following table details these variances:

<u>General Fund - Department</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Negative Variance</u>
Security services	\$ 278,000	\$ 314,053	\$ 36,053
Debt service contribution	50,000	233,078	183,078

Other Supplementary Information

CALHOUN PORT AUTHORITY**SCHEDULE OF PRINCIPAL PROPERTY TAXPAYERS****(UNAUDITED)***For the year ended June 30, 2018*

2018 Tax Roll

<u>Taxpayer</u>	<u>Type of Business</u>	<u>Taxable Assessed Valuation</u>	<u>Percentage of Total Port Taxable Assessed Valuation</u>
Formosa Plastics Corp., Texas	Chemical Manufacturer	\$ 722,548,740	62.73%
Formosa Plastics Corp., America	Chemical Manufacturer	148,552,060	12.90%
Formosa Utility Venture, Ltd.	Private Utility Company	58,140,610	5.05%
Nan Ya Plastics Corp., America	Chemical Manufacturer	45,080,290	3.91%
Port Comfort Power LLC	Electrical Utility Company	34,202,000	2.97%
Alcoa World Alumina, LLC	Aluminum/Chemical Manufacturer	50,050,720	4.35%
Formosa Transrail Corp.	Transportation Company	30,251,450	2.63%
AEP Central Power & Light Company	Electrical Utility Company	25,108,250	2.18%
NGL Crude Terminal	Energy Company	21,719,800	1.89%
Orion Marine Construction, Inc.	Marine Construction Company	16,095,330	1.40%
		<u>\$ 1,151,749,250</u>	<u>100.00%</u>

CALHOUN PORT AUTHORITY
SCHEDULE OF INSURANCE COVERAGE
(UNAUDITED)
June 30, 2018

Type of Coverage	Carrier	Policy No.	Policy Period	
			From	To
Workers' Compensation	Texas Municipal League	8713	10/1/2017	10/1/2018
Errors & Omissions Liability	Texas Municipal League	8713	10/1/2017	10/1/2018
Automobile	Texas Municipal League	8713	10/1/2017	10/1/2018
Primary Property	Lloyds of London	B0621M4MCS041501A	4/1/2018	4/1/2019
Liability	Lloyds of London	B0621M4MCS041501A	4/1/2018	4/1/2019
Excess Property	Lloyds of London	B0621M4MCS041501A	4/1/2018	4/1/2019
Official Bond & Oath	Western Surety	13735127	5/1/2015	5/1/2019
Official Bond & Oath	Western Surety	13735121	5/6/2018	5/1/2022
Official Bond & Oath	Merchants Bonding	TX598415	5/9/2017	5/9/2021
Official Bond & Oath	Merchants Bonding	TX616963	5/6/2015	5/6/2019
Official Bond & Oath	Merchants Bonding	TX616962	5/6/2015	5/16/2019
Official Bond & Oath	Merchants Bonding	TX632468	5/11/2017	5/11/2021
Fidelity Crime Bond	Fidelity & Deposit Co.	CCP0012071	6/30/2018	6/30/2019
International Customs Bond	Western Surety Co.	460701964	2/15/2018	2/14/2019
FTZ Bond	Western Surety Co.	9909IV972	10/13/2017	10/13/2018

SOURCE: Calhoun Port Authority

<u>Premium</u>	<u>Amount of Coverage</u>	<u>Amount of Deductible</u>
\$ 21,048.00	Statutory Limit	N/A
1,102.00	\$ 500,000.00	\$ 5,000.00
1,250.00	500,000.00	5,000.00
178,054.00	5,000,000.00	10,000.00
17,456.00	5,000,000.00	10,000.00
134,002.00	35,000,000.00	10,000.00
177.50	1,000.00	N/A
177.50	1,000.00	
178.00	1,000.00	
178.00	1,000.00	
178.00	1,000.00	N/A
135.00	1,000.00	
723.00	300,000.00	3,000.00
2,000.00	100,000.00	N/A
1,000.00	100,000.00	N/A

CALHOUN PORT AUTHORITY**CARGO TRAFFIC STATISTICS****(UNAUDITED)***For the years ended June 30, 2018, 2017, 2016, 2015, 2014, 2013 and 2012*

	2018		2017		2016	
	Port Tonnage	Percentage	Port Tonnage	Percentage	Port Tonnage	Percentage
Liquid bulk cargo	4,918,817.1	99.202%	3,711,728.7	99.560%	4,142,039.4	100.000%
Dry bulk cargo	-	0.000%	-	0.000%	-	0.000%
Other	39,556.1	0.798%	16,410.1	0.440%	-	0.000%
Total	<u>4,958,373.2</u>	<u>100.000%</u>	<u>3,728,138.8</u>	<u>100.000%</u>	<u>4,142,039.4</u>	<u>100.000%</u>
Tonnage/percent export	2,088,259.7	42.116%	1,652,187.9	44.317%	1,877,805.4	45.335%
Tonnage/percent import	1,447,693.9	29.197%	586,452.8	15.730%	759,182.0	18.329%
Tonnage/percent domestic	1,422,419.6	28.687%	1,489,498.1	39.953%	1,505,052.0	36.336%
Total	<u>4,958,373.2</u>	<u>100.000%</u>	<u>3,728,138.8</u>	<u>100.000%</u>	<u>4,142,039.4</u>	<u>100.000%</u>
Ships	334		277		319	
Barges	<u>969</u>		<u>782</u>		<u>806</u>	
Total	<u>1,303</u>		<u>1,059</u>		<u>1,125</u>	

SOURCE: Calhoun Port Authority

2015		2014		2013		2012	
Port Tonnage	Percentage	Port Tonnage	Percentage	Port Tonnage	Percentage	Port Tonnage	Percentage
3,974,436.5	100.000%	4,325,106.7	99.432%	4,140,375.4	85.517%	4,070,409.2	89.014%
-	0.000%	24,700.0	0.568%	701,231.5	14.483%	502,355.8	10.986%
-	0.000%	-	0.000%	-	0.000%	-	0.000%
<u>3,974,436.5</u>	<u>100.000%</u>	<u>4,349,806.7</u>	<u>100.000%</u>	<u>4,841,606.9</u>	<u>100.000%</u>	<u>4,572,765.0</u>	<u>100.000%</u>
1,704,725.6	42.892%	2,087,791.7	47.997%	2,354,614.5	48.633%	2,267,117.5	49.579%
596,300.6	15.003%	627,481.8	14.426%	628,658.8	12.985%	585,159.2	12.797%
1,673,410.3	42.105%	1,634,533.2	37.577%	1,858,333.6	38.382%	1,720,488.3	37.624%
<u>3,974,436.5</u>	<u>100.000%</u>	<u>4,349,806.7</u>	<u>100.000%</u>	<u>4,841,606.9</u>	<u>100.000%</u>	<u>4,572,765.0</u>	<u>100.000%</u>
262		293		302		277	
781		790		835		705	
<u>1,043</u>		<u>1,083</u>		<u>1,137</u>		<u>982</u>	